PRESS RELEASE NO. 18/207

Resources

The Executive Board

Related Links

Algeria and the IMF ▸
IMF Surveillance -- A Factsheet ▸
Press Releases ▸

العربية français

IMF Executive Board Concludes 2018 Article IV Consultation with Algeria

June 1, 2018

On May 30, 2018, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation [1] with Algeria.

Algeria continues to face important challenges posed by the fall in oil prices four years ago. Despite a sizeable fiscal consolidation in 2017, the fiscal and current account deficits remain large. Real GDP growth slowed sharply, mainly driven by a contraction in hydrocarbon production, although growth in the nonhydrocarbon sector was stable. Unemployment increased to 11.7 percent in September 2017 from 10.5 in September 2016 and remains particularly high among the youth (28.3 percent) and women (20.7 percent). Average inflation declined from 6.4 percent in 2016 to 5.6 percent due to slowing inflation for manufactured goods and services, and stood at 3.4 percent year-on-year in April 2018. Reserves, while still ample, fell by US$17 billion to US$96 billion (excluding SDRs). External debt remains negligible, while domestic public debt has increased significantly since 2016 but remains moderate.

Executive Board Assessment [2]

Executive Directors noted that Algeria has faced significant challenges related to lower oil prices since 2014 and slower economic activity. While welcoming the authorities' efforts to manage the adjustment process, Directors encouraged sustained fiscal consolidation and wide-ranging structural reforms to facilitate a more diversified growth model and support private sector development.

Directors noted that the authorities' policy mix includes increased fiscal spending in 2018 followed by a resumption of fiscal consolidation over the medium term, monetary financing of fiscal deficits, and temporary restrictions on imports as well as structural reforms aimed at diversifying the economy. While a few Directors were sympathetic to the authorities' approach, most Directors considered that it may bring short-term respite for the economy, but may entail significant risks to the economic outlook. These Directors emphasized that it will likely exacerbate fiscal and external imbalances, raise inflation, accelerate the loss of international reserves, heighten financial stability risks and, eventually, lower growth.

Directors recommended an approach that would likely achieve better outcomes while being more sustainable. They generally agreed that a gradual fiscal consolidation starting in 2018 could be achieved without central bank financing, relying on a broader range of financing options, including external borrowing to finance well-chosen investment projects. A gradual exchange rate depreciation, combined with efforts to eliminate the parallel foreign exchange market would support the adjustment efforts.

Directors concurred that monetary policy should be independent and aimed at containing inflation. In this regard, they encouraged the authorities to stand ready to tighten the monetary stance if inflationary pressures arise. While discouraging monetary financing of the deficit, Directors underlined the need to put in place

What does it mean?

Inflation ▸

Debt ▸

Press Center

The IMF Press Center is a password-protected site for working journalists.

PRESS CENTER ▶

EMAIL NOTIFICATION SIGN-UP

Sign up to receive free e-mail notices when new series and/or country items are posted on the IMF website.

MODIFY YOUR PROFILE ▶

safeguards, including time and quantity limits, to contain its negative impact should such financing continue. In this context, they welcomed the central bank's commitment to sterilizing liquidity resulting from monetary financing as needed.

Directors supported the efforts to raise more nonhydrocarbon revenue, improve public spending efficiency and management, and expand the subsidy reform while protecting the poor. They welcomed the authorities' intention to advance reforms to foster private sector development by improving the business environment, enhancing access to finance, and strengthening governance, transparency, and competition. Directors also saw merit in taking steps to reduce skills mismatches, improve the functioning of the labor market, foster greater labor market participation of women, and further open the economy to trade and foreign direct investment.

Directors noted that the banking sector continues to perform relatively well. They highlighted that, given macroeconomic risks and financial linkages in the public sector, the macroprudential framework should be strengthened, including through more frequent stress tests, and development of a crisis management framework.

Algeria: Selected Macroeconomic Indicators, 2016–19

Population: 40.4 million; 2016	Per capita GDP: US$ 4,102 (2017)
Quota: SDR 1,959.9 million	Gini coefficient: 0.28 (2015)
Key export markets: EU	
Main exports: oil and gas	

	2016	2017	2018	2019

		Prel.		
Output				
Real GDP growth (percent)	3.3	1.6	3.0	2.7
Nonhydrocarbon GDP growth (percent)	2.3	2.6	3.4	2.9
Employment				
Unemployment (percent, end of period)	10.5	12.3	...	...
Prices				
Inflation (percent, average)	6.4	5.6	7.4	7.6
Central government finances (percent of GDP)				
Total revenue	28.8	32.7	30.6	28.2
Of which, hydrocarbon	9.7	12.5	12.4	11.2
Total expenditure	42.3	41.5	39.5	33.0
Overall budget balance (deficit-)	-13.5	-8.8	-9.0	-4.8
Gross government debt	20.6	27.0	34.8	39.9

Money and credit				
Broad money (percent change)	0.8	8.3	11.4	5.0
Credit to the economy (percent change)	9.0	11.8	12.7	7.7
Balance of payments				
Current account balance (percent of GDP)	-16.6	-12.9	-9.7	-10.1
FDI (percent of GDP)	1.0	0.7	0.8	0.8
Gross reserves (months of imports) 1/	22.6	19.1	16.2	13.5
External debt (percent GDP)	2.4	2.4	2.1	1.9
Exchange rate				
REER average (percent change)	-1.7	0.6	...	...
Sources: Algerian authorities; and IMF staff estimates.				
1/ In months of next year's imports of goods and services.				

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summing up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm .

IMF Communications Department

MEDIA RELATIONS

PRESS OFFICER: RANDA ELNAGAR

PHONE: +1 202 623-7100 | **EMAIL:** MEDIA@IMF.ORG